



## Tobacco-Free Living

---

• **Protecting the Health and Financial Equity of all Utahns through Proactive Public Policy** •

---

### DEBUNKING BIG TOBACCO'S MYTHS ABOUT STATE TOBACCO TAX INCREASES

Whenever an increase to a state's tobacco tax rate is being considered, a number of misleading or false arguments against the increase typically appear. The following list represents a few of the myths about tobacco tax increases perpetrated by tobacco companies, or their lobbyists and allies. Also included are documented facts that debunk them.

#### ***I. Tobacco Company Myth: Cigarette tax increases do not reduce smoking.***

**Tobacco Tax Fact:** Over 100 studies demonstrate there is a significant correlation between the price of tobacco products and overall consumption.

A higher cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population.<sup>1</sup>

#### ***II. Tobacco Company Myth: Tobacco tax increases unfairly target smokers and make them shoulder the burden for statewide budget problems.***

**Tobacco Tax Fact:** Even after any politically acceptable tax increase, the state cigarette tax per pack will still be far less than the state's tobacco-caused health care costs and related productivity losses per pack of cigarettes. As a result, the 88% of Utahns who don't smoke are paying for those who do.

The cost of health care for all Utahns, including the 88% of those who don't smoke, is elevated as a result of the increased demand on the health care supply and charity and uncompensated care resulting from tobacco-use, as are the costs of health insurance paid by individuals and businesses. Direct and indirect tobacco-related health care costs exceed \$345,000,000 per year in Utah, \$104 M which is Medicaid costs. Tobacco-related productivity costs exceed \$275 M a year.<sup>2</sup>

III. In Utah, the annual per pack costs of tobacco-related health care (\$345 M) and tobacco-related productivity losses (\$275 M) is \$7.75. The current state tobacco excise tax to offset those costs is only \$0.695 per pack (a ratio of \$7.75 to \$0.695). Even if the legislature were to pass the proposed \$1.305 tax increase, the cost to tax ratio would be \$7.75 per pack for health care and productivity costs to \$2.00 tax to offset those costs.

Nearly 72,000 Utah smokers are uninsured and likely rely on state-funded programs or charity-care for their tobacco-related health care.<sup>3</sup>

#### ***III. Tobacco Company Myth: Tobacco tax increases hurt business.***

**Tobacco Tax Fact:** A tobacco tax increase will help Utah business by reducing the number of smokers in our state, many who are employed, and as a result decreasing tobacco-related costs incurred by businesses and increasing disposable income that can be expended on higher margin Utah produced goods and services.

A. Annually, Utah business experience tobacco-related lost productivity costs estimated at \$275 M.<sup>5</sup> Businesses also experience other tobacco-related costs such as increased costs for group health insurance premiums, excessive tobacco-related sick leave, and excessive costs of cigarette breaks. Intuitively, these costs will decrease significantly for every employee who quits using tobacco.

Nearly \$306 M is expended on cigarettes in Utah every year, rather than on higher margin goods and services produced in our state. If as estimated nearly 23,000 smokers quit smoking as a result of an increase in the cigarette tax, more than \$46 M will be infused into the economy annually for expenditure on higher margin goods and services, many of which are produced in Utah by Utahns.<sup>4</sup>

**IV. Tobacco Company Myth: A tobacco tax increase will promote illegal activity such as cross-border purchases, black market activity, and purchases of tobacco on Indian reservations.**

**Tobacco Tax Fact:** While internet sales are of concern and the state should shore-up its law regulating internet sales of tobacco products, the smuggling/tax avoidance problem is much smaller than big tobacco or its allies say.

A. Research shows that smuggling and tax evasion not only fails to eliminate revenue gains from cigarette tax increases but is also a much smaller problem than the cigarette companies and their allies claim (especially when compared to the additional new revenues, public health benefits, and smoking-caused cost reductions from state cigarette tax increases). For example, a 2003 economic research study found that state smuggling and tax evasion revenue losses totaled less than eight percent of total state cigarette tax revenues (with those losses concentrated in the highest-tax states).<sup>5</sup> Similarly, a 2005 study found that all smuggling and tax evasion accounted for less than ten percent of all cigarette sales.<sup>6</sup> In California, a survey found that soon after the state's 50-cent cigarette-tax increase went into effect, less than five percent of all continuing smokers were trying to evade the state's cigarette tax.<sup>7</sup>

B. Unlike New York, Chicago and New Jersey, Utah does not have established or sophisticated black market activities or patterns necessary to establish significant black market sales.

Utah State law requires collection of state cigarette tax from all non-tribal members purchasing tobacco on tribal lands.<sup>8</sup>

**V. Tobacco Company Myth: Cigarette tax increases do not provide a reliable source of future state revenue.**

**Tobacco Tax Fact:** Tobacco tax revenues are one of the most predictable sources of revenue that states receive. Any significant reductions to tobacco tax revenues from ongoing tobacco use declines are dwarfed by the much larger reductions in government and private sector tobacco-caused costs those tobacco use declines produce.

Tobacco tax revenues are much more predictable than many other state revenues. Large drops in tobacco tax revenue from one year to the next are quite rare given the addictive power of cigarettes and other tobacco products and significant advertising conducted by tobacco companies (\$57.9 M in Utah in 2007).<sup>9</sup>

**VI.**

Although reductions to state smoking levels in the years after a cigarette tax increase will gradually erode state tobacco tax revenues (in the absence of any new state rate increases), those smoking declines will simultaneously lock in even bigger reductions in government and private sector smoking-caused costs. At the same time, the state would enjoy the even larger, rapidly growing cost savings from the sharper smoking declines prompted by the original cigarette tax increase.<sup>5</sup>

<sup>1</sup> *Cigarette Attributes and Quitting*, Philip Morris document, March 4, 1993.

<sup>2</sup> CDC, "Annual smoking attributable mortality, years of potential life lost, and economic costs – Utah 2004."

<sup>3</sup> Utah Department of Health, "Health care access survey," 2007.

<sup>4</sup> New disposable income is equal to the average packs consumed annually by all adult smokers in Utah age 18 + multiplied by \$5.20 which would be the average price per pack of cigarettes after a \$1.305 per pack increase in the state cigarette tax multiplied by the projected number of adult smokers who will quit smoking as a result of a tax increase of \$1.305 per pack of cigarettes.

<sup>5</sup> Farely, M, et al., *State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion*, RTI International, May 2003, [http://www.rti.org/pubs/8742\\_Excise\\_Taxes\\_FR\\_5-03.pdf](http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf). See also, Yurekli, A & Zhang, P, "The Impact of Clean Indoor-Air Laws and Cigarette Smuggling on Demand for Cigarettes: An Empirical Model," *Health Economics* 9:159-170, 2000.

<sup>6</sup> Stehr, M, "Cigarette Tax Avoidance and Evasion," *Journal of Health Economics*, 24(2):277-297, March 2005.

<sup>7</sup> Emery, S, et al., "Was There Significant Tax Evasion After the 1999 50 Cent Per Pack Cigarette Tax Increase in California?" *Tobacco Control* 11:130-34, June 2002, <http://tc.bmjournals.com/cgi/reprint/11/2/130.pdf>.

<sup>8</sup> UCA 59-14-204.5 (2)(a)(i).

<sup>9</sup> Campaign for Tobacco-Free Kids Factsheet, *The Toll of Tobacco in Utah*, 2007.